

Hong Kong University of Science and Technology
School of Business and Management
Department of Finance
FINA 110
Fundamentals of Business Finance
Summer 2008

Instructor:

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Course Meetings:

Class Hours Mondays, Wednesdays & Fridays 15:00-16:50
Venue 3306 (Lift 4)
Class Duration 16 June 2008 to 1 August 2008

Course Website:

LMES (<http://lmes2.ust.hk>)

Course Description:

Fundamentals of Business Finance is an introductory finance course for non-business major students. The main purpose of the course is to provide students with a basic understanding of the concepts and analytical techniques of corporate finance. Real-world examples will be introduced as well. Upon completion of this course, students are expected to be able to understand financial statements and cash flows, time value of money, discounted cash flows, stocks and bonds valuation, risk and return, capital budgeting, cost of capital, capital structure, dividend policy, etc.

Course Outline

- Introduction to Corporate Finance
- Introduction to Financial Statement
- Working with Financial Statements
 - Ratio Analysis
 - The Du Pont Identity
- The Time Value of Money
- Discounted Cash Flow Valuation
- Bond & Common Stock Valuation
- Capital Budgeting
 - NPV and Other Investment Criteria: Pro & Con
 - Making Capital Investment Decisions
- Risk and Return
 - Some Lessons from Capital Market History (optional)
 - Portfolio Theory
 - CAPM
- Cost of Capital
 - The Cost of Equity, Debt and Preferred Stock

- The Weighted Average Cost of Capital
- Capital Structure
 - The Effect of Financial Leverage
 - Capital Structure and Cost of Equity Capital
 - Corporate Taxes, Bankruptcy Cost and Optimal Capital Structure
- Dividend Policy (optional)

This outline is given as a reference only. If time allows, we will endeavor to cover other subjects which might be of particular interest to students.

Required Textbook:

Essentials of Corporate Finance (another name: Corporate Finance Essentials) by Ross, Westerfield and Jordan, McGraw Hill International Edition, 6th Edition, 2008.

You are strongly recommended to read the textbook. Earlier versions are fine as well.

Reference Materials:

1. **Corporate finance by Ross, Westerfield, and Jaffe, McGraw Hill, 7th Edition, 2005.**

This is an advanced text book with similar topics to the required textbook. If you are interested in some particular topics, you can find more details from it.

2. **Financial Times and the Asian Wall Street Journal; magazines such as Business Week, The Economist, Forbes and Fortune.**

You can find many real world examples of financial decisions there.

3. **Online Learning Center (OLC) at the Publisher’s Website: www.mhhe.com/rwj**

The OLC provides access to additional web-based study materials for the textbook.

4. **Other Reference Websites:**

The textbook makes reference to some interesting financial websites which contain a lot of financial information on the US markets and companies. As finance is global in practice, it is useful to familiarize yourself with these sites as referred to in the textbook. For financial matters of local interest, you may consult the following sites:

www.hkex.com.hk; www.sfc.hk.

Evaluation

The course evaluation is as follows:

Group Assignments	15%
Group Project	25%
Mid-term Examination	30%
<u>Final Examination</u>	<u>30%</u>
Total	100%
Bonus:	Class Participation 0-10%

Group Assignments and Project

1. Students will be formed into groups of maximum 6 students. How you run the groups is your concern. However, we will help you if you have difficulties to form one. Send us a list of your group members (name, student id) via email **before June 25, 2008.** We will assign students whose names are not submitted into groups randomly after this deadline. It is your responsibility to make sure each group member does his/her fair share of the work. We will not be involved in intra-group disputes.
2. There may be 2-3 group assignments. It helps you to understand materials to be covered in class.
3. Each group should choose one HK listed company to value. We highly recommend you to choose a large, mature, and non-financial company. You should submit a hard copy of your project report before your final exam. A template will be posted on the course website.

Mid-term & Final Exam

1. Both mid-term and final exam are close-book, but you can bring an A4 cheat sheet. Only material covered in class will be tested.
2. Absence from the both exams will not be excused except for serious medical illness. A doctor's letter must be provided within one week of the exam.
3. Cheating in any form will not be tolerated. Any student caught cheating during the exam will receive zero credit and may face further disciplinary actions.
4. Final grades will be based on the distribution suggested by University guidelines.

Individual Homework Assignments

Selected end-of-chapter problems as well as solutions will be provided for your own practice. No need to hand them in and thus they won't be included in your final grades. The format shall be similar to the final exam.

Class Participation Policy:

1. Full class attendance is encouraged. If you miss 6 classes or more, you may receive an F unless you receive a course grade of A- or above.
2. We will upload the lecture note to the website before each class. You are strongly encouraged to read the lecture notes before attending the class.
3. Please be punctual. We will start class on time. If you are more than 10 minutes late, you should not enter the classroom.
4. Mobile phones and pagers must be switched off.
5. Students who disrupt the class frequently (e.g., coming in or going out at times, talking in class, using the mobile, etc.) will lose participation points.
6. Students who actively participate in the class will be rewarded with up to 10 participation points.
7. Class arrangement in case of typhoon or rainstorm black warning, please refer to ARRO websites.

Comments and suggestions:

We would like you to enjoy the class as much as possible. If you have any comments and suggestions that can improve the quality of the class and your enjoyment, please feel free to let us know.